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April 17, 2006

## **AGENDA ITEM 8b**

### **TO: MEMBERS OF THE INVESTMENT COMMITTEE**

- I. SUBJECT:** Selection of Consultants – Investment Opportunities through Diversity (Spring-Fed Pool)
- II. PROGRAM:** Total Fund
- III. RECOMMENDATION:** Approve Selection of Consultants for Consulting Services-Investment Opportunities through Diversity (Spring-Fed Pool)
- IV. ANALYSIS:**

### **EXECUTIVE SUMMARY**

In December 2005, the Investment Committee approved issuance of a Request for Proposal (RFP) to establish a spring-fed pool of consultants with expertise on the issue of diversity as it relates to the investment industry. Staff issued the RFP in January 2006 and recommends four firms for the pool. These firms are:

- Altura Capital
- Ivy Planning Group, LLC
- Mosaic Investment Advisors, Inc.
- RG & Associates (for event planning services only)

This agenda item sets forth: a recap of the process that led to the issuance of the RFP; an explanation of the RFP process; a brief description of the firms selected to the pool; and a summary of next steps.

## **BACKGROUND**

As the nation's largest public pension fund and an organization with a global impact, CalPERS recognizes diversity as an important business issue. The issue of diversity has been embraced in CalPERS strategic goals and enterprise wide operations for many years.

The CalPERS Investment Office has ongoing efforts, in all asset classes (private equity, real estate, fixed income, and public equity), in the area of diversity. These efforts have generally fallen within three categories: programs that seek to take advantage of investment opportunities with domestic emerging markets; programs that seek to leverage the skills and talents of emerging managers; and efforts to expand outreach and networking. Current programs include: the California Initiative Program, the California Urban Real Estate (CURE) Program, the Manager Development and Manager Development II Programs, and numerous outreach efforts.

Recently, and in light of fundamental demographic shifts at the statewide as well as national levels, the issue of diversity as it relates to public pension fund investment programs, and to CalPERS in particular, has been a matter of increased interest for the investment community, various constituent groups, and the State Legislature.

On November 14, 2005, the Investment Office presented to the CalPERS Board a workshop titled "Expanding Investment Opportunities through Diversity." The workshop provided an educational forum on the business issue of diversity within the investment industry, and laid the groundwork for establishing a work plan to supplement the efforts the CalPERS Investment Office has already taken in this arena.

On December 12, 2005, the CalPERS Investment Office presented an agenda item to follow up to the November workshop. Based on information received at the workshop, staff recommended that CalPERS supplement and expand upon its ongoing diversity-related efforts by developing and implementing an investment approach, consistent with fiduciary principles, that seeks to take advantage of all skills and ideas in the investment industry.

This comprehensive approach would apply across all asset classes and would be designed to ensure that CalPERS, as an institutional investor, is poised to fully engage the marketplace and take advantage of opportunities created as a result of fundamental demographic shifts. In addition, diversification among our provider base will provide a sustainable competitive edge and ensure that CalPERS continues to be on the cutting edge of innovation in the investment arena.

As a next step in implementing this approach, staff recommended and the Investment Committee approved issuance of an RFP for consultant services to identify experts with expertise on the issue of diversity as it relates to the investment industry. It was envisioned that these experts would be used to review CalPERS existing policies and practices, identify best practices that are most pertinent to and appropriate for CalPERS, and – as appropriate – assist in the implementation of those practices.

### **THE REQUEST FOR PROPOSAL**

The RFP was issued on January 20, 2006. The RFP sought to establish a pool of qualified firms to provide the following services:

- Develop organic, comprehensive strategies for the CalPERS Investment Program, including strategies that cross asset classes, so that CalPERS can identify, attract, and retain the broadest possible investment talent, experiences, and perspectives, including emerging and developing money managers, brokerage firms, consultants, and other services providers.
- Review best practices, programs, and policies, and recommend those most pertinent to and appropriate for CalPERS; and assist in implementation.
- Develop and assist in the implementation of a methodology and metrics to measure the impact and success of diversity-related investment management programs.
- Develop and assist in the implementation of measures to ensure the accountability of internal staff as well as external agents in the implementation of diversity-related investment management programs.
- Assess CalPERS existing resources (internal and external), review CalPRES existing policies, practices and procedures (relating to both internal and external management), and recommend enhancements.
- As required, coordinate CalPERS consultants and other resources.
- Provide other related services, including but not limited to: assisting in the development of legislative or other reports on CalPERS efforts in this arena, and advising on the development of outreach strategies.
- Provide event management for CalPERS workshop and conferences, and other outreach efforts on diversity-related investment issues.

Candidates had the option to submit a proposal for one or more of the services delineated in the RFP.

The RFP was sent to over 100 firms. In addition, CalPERS encouraged submissions through advertisements and word of mouth. Eight proposals were submitted by the final filing date of February 22, 2006. Two of these proposals were disqualified for failure to meet the requirements set forth in the RFP. The remaining six proposals were reviewed by a cross-functional team consisting of the Interim Chief Investment Officer, Investment Office staff across asset classes, the CalPERS Diversity Coordinator, and Wilshire Associates, Inc. The review included an evaluation of the firms' organization and background, dedicated staff, services relating to investment opportunities through diversity, and fees.

### **APPOINTMENTS TO THE SPRING-FED POOL**

Four firms are recommended for appointment to the spring-fed pool.

Three firms are recommended to provide across-the-board services: Altura Capital Advisors; Ivy Planning Group; and Mosaic Investment Advisors. One firm, RG & associates, is recommended for inclusion in the pool with respect to event planning services only. See Attachment A for a brief overview of the four recommended firms.

Staff extends its appreciation to all firms that applied for the pool.

### **NEXT STEPS**

Staff intends to conduct the following next steps:

- Upon IC approval and completion of the protest period, execute contracts with pool members (target effective date is May 15, 2006).
- Conduct meetings with the selected firms to better understand their skill sets, ideas, and proposed strategies.
- Develop project scope and select a firm to lead, coordinate, and participate in the development and implementation of comprehensive strategies, best practices, methodologies and metrics for addressing diversity within the investment industry. The target date for retention of the consultant is July 1, 2006.

## **V. STRATEGIC GOALS:**

Goal 1, Exercise global leadership to ensure the sustainability of CalPERS' pension and health benefit systems; Goal II, Foster a work environment that values quality, respect, diversity, integrity, openness, communication, and accountability; and Goal IX, Achieve long-term, sustainable, risk adjusted returns.

## **VI. RESULTS / COSTS:**

The additional costs for the Investment Office will be absorbed within the existing budget. The pool will provide CalPERS with an expert base on the issue of diversity as it relates to the investment industry.

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